

KEY INFORMATION FOR THIS WEEK

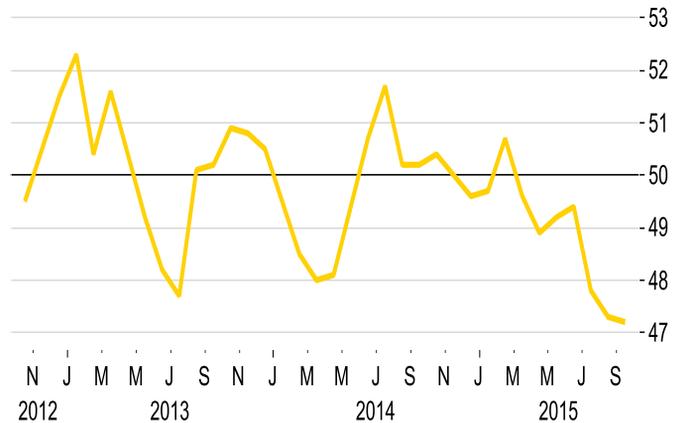
COMMENTARY // 02 OCT 2015

SEVEN 
Investment Management

THE CHINESE ECONOMY

- The new narrative building in markets, is that a bump upwards in Chinese 'hard data' (e.g. industrial production) over the coming months will be enough to ease the extreme global risk-off sentiment that currently pervades markets.
- The uncertainty around China's growth number has spawned a whole industry seeking to offer their view on what 'real' growth is.
- This generally involves sifting through the minefield of opaque Chinese data looking for clues to where this bump in 'hard data' will come from.
- The latest business survey on manufacturing seems to offer some clues. While the headline reading suggested a continued contraction in industrial production, the chief economist who carried out the report suggested that the government was opening the fiscal taps in order to boost the economy.
- This may be cold comfort for markets right now, so we'll have to wait and see for the data to come through.

PMI READING BELOW 50 SUGGESTS SLOWDOWN



Source: Bloomberg

EUROZONE INFLATION/DEFLATION

- The headlines will say the Eurozone economy has slipped back into deflation. Beyond the headlines a positive story is emerging – something that has been very difficult to say over the last seven years.
- The recent fall in prices has actually been a positive boost to the Eurozone consumer who have extra cash in their pockets from the dramatic fall in energy prices.
- The economy has also received a boost via a weaker Euro just as the US consumer has been getting stronger.
- In addition, the belated QE programme is pushing down interest rates across the economy making it easier for small and medium sized businesses to borrow.
- The fall in energy prices will eventually fall out of the inflation calculations which will see the official measure of inflation rise towards the end of the year and possibly beyond 1% by the end of the first quarter of 2016.

EUROZONE INFLATION BELOW ZERO

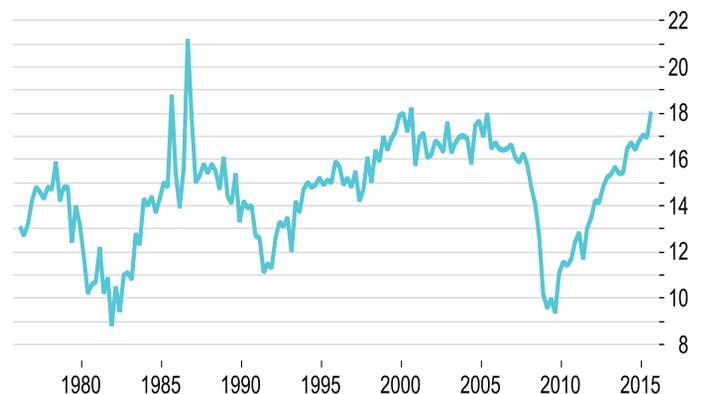


Source: Macrobond

US CONSUMER

- What do you get when you mix easy credit with cheap energy? The result is a big jump in car and truck sales.
- The US consumer is in the best shape it has been since the crisis – the worst of the debt overhang is behind us, the government is no longer cutting its budget ferociously, oil prices have fallen sharply and interest rates remain low.
- Putting it altogether, households will drive growth forward and will be a key factor in supporting economies in other parts of the world, namely Japan and Emerging Asia, particularly welcome in the context of the recent China slowdown.
- There are likely to be a series of interest rate rises by the end of this year and into next year. This is unlikely to hamper households as mortgages are mostly fixed rates meaning the rise in mortgage repayments is limited to new mortgages.

AUTO SALES NEAR 2000S HIGHS



Source: Macrobond

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